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Heidrick and Struggles, Inc.

Mobile Manager 1981

Highlights:

The typical mobile manager in our study

- Has cash compensation of $154,900
- Enjoys more perks than his counterparts of earlier years
- Received an increase of 37 percent in salary and bonus in moving to his new responsibilities
- Has one or more advanced degrees
- Has had three full-time employers
- Regards reduced Federal regulatory activity as the most important government action to improve his company's performance
- Supports Federal assistance to financially troubled corporations when such action is in the national interest
- Believes American business overemphasizes short-term profits

About This Study

In 1981 Heidrick and Struggles conducted its seventh annual survey of individuals whose assumptions of leadership positions in major American business organizations had been announced in the Who's News column of *The Wall Street Journal* during the preceding year. A total of 4,143 individuals were listed during 1980.

All of those included are chairmen and presidents of listed or actively traded unlisted companies, regardless of size, or of privately held companies of at least $100 million volume, or vice presidents of the nation's 500 largest industrial companies and the largest organizations in non-industrial classifications. Executives holding c fficerships in subsidiaries, divisions or units are included only if those businesses merited inclusion on the basis of their size alone.

This year, questionnaires were sent to a sampling of individuals, both those moving within their own organizations (1,806) and moving between companies (545). Responses were received from 971 or 41.6 percent of the sample selected. Where appropriate, comparisons are made between the 1980 respondents and participants of earlier studies.

The typical respondent is a 47-year-old white male Protestant. He is married to his first spouse, who is not employed full-time outside the home. His work affords him above-average pleasure, and he enjoys a high degree of satisfaction with his career progress.

Heidrick and Struggles appreciates the time and effort expended by the mobile executives who have made this study possible.

Cash Compensation, Salary and Bonus

The mobile manager has received steadily increasing cash compensation over the past seven years, as the current dollar data demonstrate. However, his increases have not kept him ahead of inflation by a significant amount. Translating the gains to constant 1974 dollars, the 1980 survey participant is earning only $92,626.

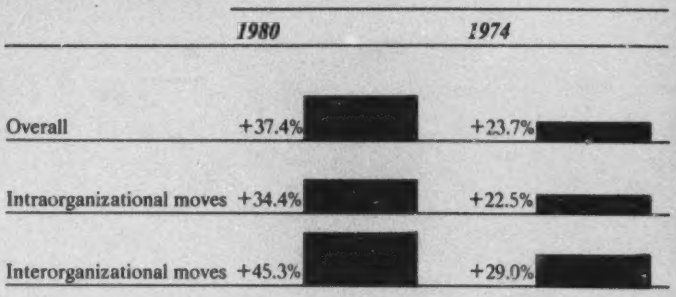
	Current Dollars	*Constant (1974) Dollars*
1980	$154,900	$92,626
1979	134,500	91,254
1978	124,700	94,305
1977	117,200	95,377
1976	105,000	90,956
1975	96,350	88,281
1974	88,010	88,010

Percentage Change, Old to New Compensation

The average percentage increase in cash compensation (salary and bonus) won by mobile executives has advanced over the past seven years. In 1974, the typical manager moving to new responsibilities accelerated his pay by less than 24 percent. Last year, the average respondent enjoyed a gain of more than 37 percent.

In every year, the progress in pay achieved by those moving to new employers has outdistanced that of individuals accepting new positions with their current companies. The margin between the two amounted to 6.5 percent in 1974; last year, the premium for hiring from outside rose to 10.9 percent.

Four in ten of those moving between organizations last year augmented their income by 50 percent or more.



Perquisites

All perquisites for mobile managers but one are growing in frequency, helping highly compensated executives shelter income from taxes. The most widely held perk continues to be stock options. Extra life insurance ranks second in frequency of mentions.

Provision of club memberships is down more than 16 percentage points from 1976, doubtless reflecting closer IRS scrutiny of this perk.

	1980	*1976*
Stock options	72.9%	70.6%
Extra life insurance	67.5	NA
Automobile	60.7	51.1
Club membership(s)	53.2	69.5
Stock purchase plan	40.3	28.7
Deferred compensation	36.9	26.7
Financial counseling	34.0	23.9
Performance shares	27.4	14.5
Management contract	14.5	12.2
Tax shelter investment opportunity	10.5	4.4
Low-cost loans	9.4	NA

Results do not add to 100% due to multiple responses

Highest Level of Education

For the first time, the study of mobile managers shows a majority holding one or more advanced degrees. A positive correlation exists between age group and level of education. The incidence of post-graduate degrees rises to three of four for those under 40.

Most impressive is the rapid rise in popularity of the MBA among advanced degrees. In the current survey, only 11 percent of the managers 60 years of age or more report a master's in business administration. However, nearly half of those under 40 possess an MBA.

	All	*Under 40*	*40-49*	*50-59*	*60 and over*
No degree	5.6%	2.0%	4.0%	8.3%	12.5%
Undergraduate degree	44.1	23.6	45.5	49.7	53.6
MBA	27.8	48.7	31.3	15.7	10.7
Other advanced degrees	22.5	25.7	19.2	26.3	23.2
	100.0%	100.0%	100.0%	100.0%	100.0%

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Geographic Mobility

The number of senior executives indicating they are eager or willing to relocate geographically has decreased sharply in just two years, from 61.2 percent in 1978 to 52.7 percent in 1980. Managers terming themselves reluctant to move have jumped from 35.4 percent to 44.3 percent of total over that brief period.

The majority of this year's survey participants (54.2 percent) have relocated geographically three times or less during the course of their careers. The arithmetic mean number of moves made is 3.7; roughly one in twelve of the mobile managers has moved nine or more times.

	1980	*1978*
Eager to move	1.6%	2.0%
Willing to move	51.1	59.2
Reluctant to move	44.3	35.4
Impossible to move	3.0	3.4
	100.0%	100.0%

Assistance Received in Relocation

Nearly four in ten of the mobile managers have relocated within the last three years alone—17.9 percent with the same employers, and 21.7 percent in joining a new company. In the face of increasing executive resistance to relocation, organizations have utilized a variety of means to ease moves during this period. Eight out of ten mobile managers have had commission and/or closing costs on their homes paid. More than six in ten have received a cash relocation settlement, and 47.2 percent have been provided the services of relocation specialists.

No comparable data are available, since this is the first time the question regarding employer assistance in moves has been asked.

	All	*Interorganizational*	*Intraorganizational*
Commission and/or closing costs paid	80.5%	82.3%	78.9%
Cash relocation settlement paid	65.6	59.5	70.8
Services of relocation specialist provided	47.2	46.5	45.1
Mortgage differential paid	41.1	42.4	40.0
No-cost bridge loan furnished	27.4	28.5	26.5
Low-cost bridge loan furnished	14.9	14.6	15.1
Other	13.4	15.?	13.2

Results do not add to 100% due to multiple responses

Views on Japanese Criticisms of American Business

More than seven out of ten senior managers agree with the Japanese criticism that American business overemphasizes near-term results, and 61.4 percent feel that there is a lack of management attention to quality control in U.S. companies. Not surprisingly, however, an overwhelming majority of the survey participants differ with the Japanese view that our employment system errs in offering neither employer nor employee long-term security. The participants undoubtedly feel that any retardation of career mobility would be inconsistent with a society which since its founding has cherished personal freedom.

	Agree	*Disagree*	*No Opinion*
Overemphasis on short-term profits	76.2%	20.4%	3.4%
Lack of management attention to quality control	61.4	34.3	4.3
Employment system offering neither employer nor employee long-term security	23.0	70.0	7.0

Support for Federal Assistance to Troubled Corporations

A very slight majority of mobile managers approve of Federal assistance to financially troubled corporations "sometimes." In contrast, most of the chief financial officers of major U.S. corporations surveyed earlier this year are unalterably opposed. Six out of ten CFOs say no to any Federal assistance at any time.

Mobile managers and finance function heads approving aid on selected occasions specify the national interest as their reason. Most of the mobile managers who oppose Federal help cite their adherence to free enterprise, as did the CFOs.

	Mobile Managers	*Chief Financial Officers*
Sometimes	50.4%	39.8%
Never	49.1	59.6
Undecided	0.5	0.6
	100.0%	100.0%

Support for Concessions to Troubled Corporate Customers

Survey respondents give overwhelming support for on occasion making special concessions to corporate customers in financial trouble. More than half the participants would support assistance if it were in the long-term interest of the supplier company. The majority of those opposing help believe the aid would extend poor management and cite support for free enterprise. These were the same reasons expressed by chief financial officers of major companies who in an earlier study opposed special assistance to customers in distress.

	Mobile Managers	*Chief Financial Officers*
Always	0.5%	0.9%
Sometimes	80.3	79.5
Never	15.4	15.1
Undecided	3.8	4.5
	100.0%	100.0%

Atlanta
Boston
Chicago
Cleveland
Dallas
Greenwich
Houston
Los Angeles
New York
San Francisco

Brussels
Dusseldorf
Frankfurt
London
Mexico City
Milan
Paris

About Heidrick and Struggles

For more than a quarter century, Heidrick and Struggles has devoted its full resources to helping client organizations in all major industries to locate, evaluate, and attract the highest caliber executive talent. Men and women sought in behalf of client organizations range from candidates for the board of directors and chief executive's post to middle management positions.

As one of the oldest and largest firms devoted exclusively to executive search, Heidrick and Struggles provides access to leading executive markets around the world through ten domestic and seven international offices. The firm's seasoned consultants are supported by the search industry's most comprehensive research and planning operations, the product of more than 25 years of meeting clients' needs for superior performers.

As its contribution to the body of knowledge available to senior management, Heidrick and Struggles periodically publishes profiles of incumbents in key management posts. Corporate board practices are analyzed regularly, along with the backgrounds and viewpoints of newly elected directors.

MobileManager 82

Heidrick and Struggles

Highlights:

The typical mobile manager in our study:

- Earns cash compensation of $173,000
- Has one or more advanced degrees
- Received a 35 percent increase in salary and bonus when moving to his new post
- Devotes 57 hours a week to his work and spends up to 25 percent of the time on business travel
- Describes his family's influence on his career decisions as "average or less"
- Has received the counsel and support of one or more mentors and one or more sponsors
- Believes leadership ability contributes most importantly to upward mobility for executives
- Regards high interest rates as the economy's most serious problem
- Believes the recession is hitting bottom now
- Names computers as the industry with the greatest growth potential through the Eighties

About This Study

In 1982 Heidrick and Struggles conducted its eighth annual survey of individuals whose assumptions of leadership positions in major American business organizations were announced in the "Who's News" column of *The Wall Street Journal* during the preceding year.

All of those included are chairmen and presidents of listed or actively traded unlisted companies, regardless of size, or of privately held companies of at least $100 million volume, or vice presidents of the nation's 500 largest industrial companies and the largest organizations in non-industrial classifications. Executives holding officerships in subsidiaries, divisions or units are included only if those businesses merit inclusion on the basis of their size alone.

This year questionnaires were sent to a sampling of individuals listed, both those moving within their own organizations (1,553) and moving between companies (519). Responses were received from 790 or 38 percent of the sample selected. Where appropriate, comparisons are made between this year's respondents and participants of earlier studies.

The typical respondent is a 47-year-old white male Protestant. He is married to his first spouse, who is not employed full-time outside the home. His work affords him above-average pleasure, and he enjoys a high degree of satisfaction with his career progress. He is undecided as to when he will retire.

Heidrick and Struggles is grateful to the mobile executives who took the time and effort to make this study possible.

Cash Compensation, Salary and Bonus

Average annual cash compensation for senior managers has climbed to $173,000, compared to $154,900 in 1980. This gain appears impressive in current dollars. However, when interpreted in constant (1980) dollars, managers are averaging $156,926 or roughly the same as last year.

The average percentage increase in salary and bonus for managers moving to new positions has declined for the first time in eight years, reflecting the continuing recession. In 1981 managers typically received a 35 percent increase in cash compensation when accepting their new responsibilities, compared to 37 percent in 1980.

Percentage Change, Old to New Compensation

	1981	*1980*
Overall	+35.0%	+37.4%
Intraorganizational moves	+31.4	+34.4
Interorganizational moves	+43.3	+45.3

	Current Dollars	*Constant (1974) Dollars*
1981	$173,000	$93,838
1980	154,900	92,626
1978	124,700	94,305
1976	105,000	90,956
1974	88,010	88,010

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Perquisites

All major benefits for managers have become more prevalent in recent years, with stock options retaining premier rank. The incidences of financial counseling, stock purchase plans, and deferred compensation have posted the largest gains since 1977.

	1981	*1977*
Stock options	77.3%	71.7%
Extra life insurance	69.5	59.9
Automobile	66.6	58.2
Clubs	60.8	55.1
Stock purchase plan	47.3	31.8
Financial counseling	44.0	26.0
Deferred compensation	37.7	23.0
Performance shares	27.0	20.3
Employment contract	20.1	11.0
Tax shelter investment	12.6	NA
Low-cost loans	12.2	NA
None of the above	.9	.2

Results do not add to 100% due to multiple responses

Factors in Upward Mobility

Leadership ability is rated the most important factor contributing to upward mobility by more than two-thirds of the respondents. A majority (53.8 percent) chose "record of success" as the #2 consideration. "Hard work" and "results orientation" are tied for third place.

More than half (53.3 percent) of the participants hold two degrees; 97.2 percent are college graduates. Nevertheless, they deem "educational credentials" as least important among ten considerations.

	All	*Under 40*	*40–49*	*50–59*	*60 and over*
Leadership ability	66.6%	62.6%	64.3%	67.3%	65.5%
Record of success	53.8	46.2	53.1	57.7	51.7
Hard work	41.3	50.5	39.9	39.3	44.8
Results orientation	41.0	42.9	47.9	34.2	20.7
Intelligence	37.3	36.7	38.5	36.0	41.3
Supportive superiors	19.1	16.5	19.6	19.4	17.2
Decisiveness	13.7	13.2	15.0	11.7	10.3
Luck	9.1	7.7	8.7	9.2	17.2
Street smarts	7.6	13.2	7.3	7.1	--
Educational credentials	4.8	2.2	3.5	7.1	13.8

Results do not add to 100% due to multiple responses

Geographic Mobility

The number of executives who describe themselves as eager or willing to relocate has declined sharply, from 61.5 percent in 1979 to 51.6 percent. Those who evidence reluctance have increased to 45 percent from 35 percent three years ago. The proportion of respondents who term themselves impossible to move has remained constant over the years at 3 percent.

The majority (54 percent) of survey respondents have relocated geographically no more than three times during the course of their careers. The mean number of moves is 3.9, since nearly one in ten has moved nine or more times.

	1981	*1979*	*1977*
Eager to move	2.3	2.2	2.5
Willing to move	49.2	59.3	53.7
Reluctant to move	45.1	35.3	40.5
Impossible to move	3.4	3.2	3.3
	100.0%	100.0%	100.0%

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Price: $5

Will You Go There?

For the first time in this study, senior managers were asked for their feelings regarding a number of major cities. San Diego and San Francisco enjoy the greatest popularity. On a scale of 1 to 4, respondents rate both West Coast cities at 3.02. However, San Diego ranks as the city to which most managers are "eager to go." San Francisco assumes a close second, far ahead of Phoenix and Dallas, the third and fourth place favorites.

Metropolitan centers in the Midwest fare badly. More managers say they "won't go" to Detroit, Cleveland, Columbus and Indianapolis than any other cities listed.

Climate ranks as the prime consideration of those managers who would consider geographic relocation. Cultural facilities stand next in importance, followed by recreational facilities. Cost of living rates only fourth place.

	Overall Rating	*Eager to go to*	*Won't go to*
San Diego	3.02	27.6%	5.6%
San Francisco	3.02	25.1	4.8
Phoenix	2.56	8.6	12.5
Dallas	2.51	7.9	12.9
Washington, D.C.	2.45	7.2	15.3
Los Angeles	2.29	5.8	18.6
Chicago	2.25	3.0	16.6
San Antonio	2.23	4.3	22.0
Philadelphia	2.20	2.7	21.9
Houston	2.19	2.9	21.1
New York	2.08	6.0	26.6
Baltimore	2.00	1.4	29.2
Memphis	1.99	1.2	30.2
Milwaukee	1.89	.7	32.7
Columbus	1.88	1.4	37.1
Indianapolis	1.85	.1	36.0
Cleveland	1.70	.4	43.6
Detroit	1.56	.5	50.9

Results do not add to 100% due to multiple responses

Mentors and Sponsors

Counsel and support from mentors and sponsors have been enjoyed by the overwhelming majority of today's senior managers. Three out of four (75.5 percent) have had one or more mentors (knowledgeable counselors); seven out of ten (69.6 percent) have had one or more sponsors (influential supporters) during the course of their careers. The younger the executive, the more likely he is to have had a mentor. In the under-40 age group, the proportion is 81.3 percent, compared to 73.3 percent for managers 60 and over. The sponsorship differential is less marked: 73.3 percent of those under 40 have had supporters, versus 66.7 percent of the 60-and-over set.

The respondents are even more likely to have had protégées than to have had mentors or sponsors. Eighty-three percent have served as mentors; 71 percent have acted as sponsors.

	Total	*Under 40*	*40–49*	*50–59*	*60 and older*
Had one or more mentors	75.5%	81.3%	75.3%	75.4%	73.3%
Had one or more sponsors	69.6	73.3	69.1	68.4	66.7
Served as a mentor	83.3	78.9	81.7	89.5	79.3
Served as a sponsor	71.3	72.1	69.9	76.8	64.3

Results do not add to 100% due to multiple responses

Plans for Retirement

More than one out of three (35.5 percent) survey participants plans to retire before age 65. However, early retirement rises in popularity as age declines. In the under-40 age group, nearly two out of five (38.5 percent) say they will elect to leave the work force early.

Overall, 36 percent of the respondents are uncertain about their retirement plans; naturally, the youngest participants are most often indecisive. Forty-six percent of the under-40 group do not know at what age they will withdraw from the work world.

	Total	*Under 40*	*40–49*	*50–59*	*60 and older*
Before age 65	35.5%	38.5%	36.1%	33.8%	19.4%
At age 65	21.8	7.6	19.6	28.9	38.7
At age 70	2.9	1.1	2.1	3.0	12.9
After age 70	3.4	6.6	2.7	4.5	3.2
Don't know	36.4	46.2	39.5	29.8	25.8
	100.0%	100.0%	100.0%	100.0%	100.0%

Industries with Greatest Growth Potential

Senior managers singled out one segment of the electronics industry, computers, as likely to enjoy the greatest growth for the remainder of the Eighties. Electronics overall ranked a close second, with health services/products a distant third. Communications and energy follow, in that order.

Geographic location of participants had little or no effect on industries named. However, financial services and entertainment/leisure were slightly more frequent choices of Eastern-based respondents, while energy was a more-often-named choice of managers in the West.

There are no comparable data since this question was not asked previously.

	Total	*East*	*Midwest*	*South/ Southwest*	*West*
Computers	59.4%	60.4%	61.1%	52.7%	57.5%
Electronics	56.2	56.2	56.0	58.1	55.7
Health services/products	41.9	43.8	41.0	43.2	37.7
Communications	38.9	44.9	37.2	33.8	30.2
Energy	35.4	32.2	35.5	36.5	43.4
Entertainment/Leisure	28.1	30.4	26.9	29.7	23.6
Financial services	23.2	25.8	23.5	18.9	18.9
Food/Beverage products/services	14.9	14.1	13.2	18.9	17.9
Chemicals	8.3	11.7	6.8	4.1	5.7

Results do not add to 100% due to multiple responses

Most Serious Problems in Our Economy

When questioned in August, more than eight out of ten senior executives deemed high interest rates the most serious problem facing our economy. Low productivity ranked second, followed by the unbalanced budget. Despite the continuing rise in the number of jobless, unemployment was relegated by survey respondents to fifth place among America's economic difficulties.

	All	*Industrial*	*Non-Industrial*
High interest rates	85.5%	87.1%	82.1%
Low productivity	66.8	67.9	64.2
Unbalanced budget	54.1	52.6	57.3
Inflation	37.7	35.6	42.3
Unemployment	23.4	20.7	29.3
Foreign competition	23.0	27.1	14.2

Results do not add to 100% due to multiple responses

About Heidrick and Struggles

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For more than a quarter century, Heidrick and Struggles has devoted its full resources to helping client organizations identify, evaluate, and attract the highest caliber talent. While the preponderance of assignments continues to derive from transnational companies, an increasing number is being undertaken in behalf of small business organizations and non-profit entities, including educational institutions, foundations, associations, and governmental units. Individuals sought in behalf of client organizations range from candidates for the board of directors and chief executive's post to middle managers.

As one of the most broadly experienced and most highly regarded firms devoted exclusively to executive search, Heidrick and Struggles provides access to leading executive markets around the world. The firm's seasoned consultants are supported by the search industry's most sophisticated and comprehensive research and planning operations, the product of 29 years of meeting clients' needs for superior performers.

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Heidrick and S

Findings of a 1982 study of the chief technical officer and his function at America's 750 largest industrial companies

RESEARCH AND DEVELOPMENT

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About This Study

The role of research and development is more critical than ever before. To keep abreast of how major American industrial organizations are meeting the challenge of rapidly changing technology worldwide, Heidrick and Struggles undertook this fourth study of the research and development function and the chief technical officer.

The nation's 750 largest industrials were invited to participate in the 1982 study, broadening the population to be examined from the 500 included in 1978. Replies to a single mailing were received from 198 companies, representing 27 industries. Results are reported by size of company, by three major industry groups, and by size of R&D budget. Where appropriate, findings are compared with other original research conducted by Heidrick and Struggles.

The cooperation of the busy executives who made these findings possible is deeply appreciated. Their time and attention enabled Heidrick and Struggles to make this information available to the business community.

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Summary of Findings on Research and Development Matters

Number of R&D professionals company- wide:
Averages 749; one company in five employs 50 or fewer

Major source of new/modified product ideas:
The laboratories

Security measures most frequently employed:
Documentation, signed secrecy oath, need-to-know policy

Outside assistance:
Majority of companies fund projects at universities and independent laboratories and participate in joint ventures

Research abroad:
Three out of five fund/conduct research outside the US, on average in four countries

ROI on R&D:
Six out of ten organizations do not attempt to measure

Technical person on board of directors:
Six out of ten boards of directors include a technical person, who is an outsider

Outside technical advisory committee:
Majority of companies do not have

Most important factor in attracting high-quality personnel:
Challenging technical assignments

Federal action which would be most beneficial to R&D:
Tax reform

Summary of Findings on the Chief Technical Officer

Title:
Vice president

Status:
An officer, not a director, reporting to the president or chairman

Age:
52

Education:
PhD in Engineering

Cash compensation (salary and bonus):
Under $150,000

Perquisites:
Stock options, extra life insurance

Number of employers during career:
2.9

Directorships:
None

Tenure in present post:
5 years

Tenure with company:
16 years

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Price: $10

Company-Wide R&D Professional Employment

The number of professionals employed company-wide varies greatly. The average is 749, although 21 percent of responding organizations employ 50 or fewer. Nearly as many firms (19 percent) employ more than 800.

Corporate R&D personnel average 240 at companies devoting less than 1 percent of sales to R&D, but 1,727 at those spending 3 percent or more. At companies where the function reports to the CEO, the average is 1,044; elsewhere, it stands at just 635.

	All Companies	*Companies by Sales*		*Companies by R&D Budget as % of Sales*			
		$1 bil and more	Under $1 bil	Less than 1%	1–1.9%	2–2.9%	3% or more
1–50	21.0%	5.2%	37.4%	40.8%	26.7%	6.1%	5.4%
51–100	16.7	4.2	29.6	20.4	22.0	15.2	12.5%
101–300	24.7	25.3	24.2	20.4	22.0	30.2	26.8
301–800	18.8	31.6	5.5	14.3	22.0	30.3	14.2
More than 800	18.8	33.7	3.3	4.1	7.3	18.2	41.1
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Mean	749	1,112	476	240	268	538	1,727

R&D Budget

Size of company does not impact R&D spending as much as industry grouping. Average expenditure of the larger companies ($1 billion and more) is identical to the general average, while typical spending of the smaller companies slightly exceeds the overall figure. Chemicals as a group better the general average by more than a full percentage point.

The typical company spends just 8 percent of its budget on basic research, or research with no immediate commercial objective. The remainder, 92 percent, is allocated to applied (specific commercial objective) research. More than a third of the companies do no basic research.

The majority of companies—six out of ten—do not attempt to measure return on investment in R&D. Of those which do, the majority consider contribution of new/modified products to company profits. A substantial number also assay contribution to sales.

	All Companies	*Companies by Sales*		*Companies by Selected Industry Groups*		
		$1 bil and more	Under $1 bil	Chemical	Food	Electrical
Less than 1%	27.0%	26.8%	27.2%	5.1%	57.1%	13.6%
1–1.9%	23.3	22.7	23.8	20.5	35.7	18.2
2–2.9%	18.5	18.5	18.5	28.2	—	18.2
3–4.9%	11.1	12.4	9.8	23.1	—	18.2
5% or more	20.1	19.6	20.7	23.1	7.2	31.8
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Mean	2.70	2.70	2.71	3.87	1.39	3.71

Source of Product Ideas

The laboratories rank as the genesis for most new/modified product ideas, followed closely by the sales/marketing function. Other sources, in descending order, are top management, manufacturing, unsolicited help from the outside, and solicited external assistance.

The laboratories are even more significant as a source for the large companies, while outside aid (solicited or no) is more important to smaller firms.

More than a third of the surveyed companies report they are making a significant departure from conventional product lines. The proportion of companies transforming traditional business is highest in the Midwest, where old-line manufacturing companies have been particularly hard hit by the recession.

	All Companies	*Companies by Sales* $1 bil and more	Under $1 bil
Laboratories	92.1%	94.5%	89.7%
Sales/Marketing function	90.4	86.8	94.3
Top management	66.9	60.4	73.6
Manufacturing	53.4	49.5	57.5
Outside, unsolicited	41.0	34.0	48.3
Outside, solicited	37.1	34.0	40.2

Results do not add to 100% due to multiple responses

Security Measures

The majority of responding organizations employ these security measures in the R&D area (in descending order): documentation, signed secrecy oath, need-to-know policy, paper shredding, pre-employment verification of credentials, and identification badges.

The no-visitor policy and electronic file audit are the least frequently utilized security methods.

	All Companies	*Companies by Sales* $1 bil and more	Under $1 bil
Documentation	72.8%	73.7%	71.7%
Signed secrecy oath	68.6	70.7	66.3
Need-to-know policy	68.1	72.7	63.0
Paper shredding	62.8	67.7	57.6
Pre-employment credential verification	59.7	61.6	57.6
Identification badges	58.1	67.7	47.8
Need-to-visit policy	44.5	38.9	51.1
Code-name project designation	37.7	48.9	26.1
No-visitor policy	7.3	4.4	10.9
Electronic file audit	4.2	6.6	2.2

Results do not add to 100% due to multiple responses

Outside Assistance to R&D

More than three-fourths of the organizations fund research projects at universities. This incidence rises with size of company, but remains unchanged relative to size of R&D budget or the R&D function's reporting level.

A smaller proportion—65 percent—fund research projects at independent laboratories. Again the probability of such funding is substantially higher among companies with sales of $1 billion or more.

Six out of ten surveyed organizations enter into joint R&D ventures with other companies. The practice exists at 73 percent of the larger firms, but at only a minority (47 percent) of companies with sales under $1 billion.

Fund projects at universities	*All Companies*	*Companies by Sales* $1 bil and more	Under $1 bil
Yes	76.8%	91.3%	61.1%
No	23.2	8.7	38.9
	100.0%	100.0%	100.0%
Fund projects at independent laboratories			
Yes	65.2%	74.5%	55.1%
No	34.8	25.5	44.9
	100.0%	100.0%	100.0%
Enter into joint R&D ventures			
Yes	60.6%	72.8%	47.4%
No	39.4	27.2	52.6
	100.0%	100.0%	100.0%

International Research

Slightly more than three out of five companies (60.9 percent) fund and/or conduct R&D outside the United States. The practice declines with company size, falling to about half (49.5 percent) among firms with sales under $1 billion.

The typical company funding/conducting research outside the US is active in 4.1 countries, although one in five firms is so engaged in just one foreign location. The larger the company, the more foreign locations are involved. R&D efforts are more geographically diversified when the function reports to the CEO (5.2 countries) than when it does not (3.6).

In very few cases (6 percent) is the international research by responding companies conducted jointly with foreign-owned firms. The largest proportion (47.4 percent) report that this is the case "sometimes," while almost as many (46.6 percent) say that joint ventures with non-American companies are never undertaken.

Fund/Conduct R&D outside U.S.	*All Companies*	*Companies by Sales* $1 bil and more	Under $1 bil	*Companies by R&D Reporting Relationship* CEO	All Others
Yes	60.9%	93.7%	49.5%	62.9%	50.6%
No	39.1	6.3	50.5	37.1	39.4
	100.0%	100.0%	100.0%	100.0%	100.0%
International research is a joint venture					
Always	6.0%	5.8%	6.5%	5.3%	6.5%
Sometimes	47.4	47.1	47.8	55.3	42.9
Never	46.6	47.1	45.7	39.4	50.6
	100.0%	100.0%	100.0%	100.0%	100.0%

Licensing

More than three-fourths of the responding firms license to foreign-owned companies. Incidence of this practice is greatest among the larger organizations, as well as those with the most substantial R&D budgets.

Licensing to foreign firms which rank as competitors is far less frequent than licensing abroad to non-competitors. Only 39.8 percent of the respondents license to competitors outside the US, although more than half of the larger companies do. Those with the largest budgets relative to sales also most often grant patent rights to competitors.

To foreign-owned companies	*All Companies*	*Companies by Sales*		*Companies by R&D Budget as % of Sales*			
		$1 bil and more	Under $1 bil	Less than 1%	1–1.9%	2–2.9%	3% or more
Yes	76.4%	86.3%	65.6%	74.0%	67.4%	77.1%	86.2%
No	23.6	13.7	34.4	26.0	32.6	22.9	13.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
To foreign-owned competitors							
Yes	39.8%	52.0%	26.4%	34.0%	27.3%	44.1%	53.6%
No	60.2	48.0	73.6	66.0	72.7	55.9	46.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Factors in Attracting High-Quality Personnel

The single most influential factor in attracting high-quality engineers/scientists to organizations is challenging technical assignments, according to responding companies.

In second place is quality of present R&D staff, followed by the prospective employer's industry standing. Top management support for research and development is tied with "creative environment" for fourth rank.

	All Companies	*Companies by Sales* $1 bil and more	Under $1 bil
Challenging technical assignments	63.0%	54.0%	58.8%
Quality of present R&D staff	60.3	54.0	52.8
Company's standing in its industry	54.0	39.5	58.4
Top management support for R&D	38.6	27.4	43.8
Creative environment	38.6	41.9	41.6

Results do not add to 100% due to multiple responses

Title and Reporting Relationship

About four of five R&D heads are officers of their companies, with the majority holding the title of vice president. One in seven is a senior vice president; one in 20 is an executive vice president.

The higher the R&D budget as a percent of sales, the more likely the function's chief is to hold officer rank. Seventy-eight percent of function heads at firms devoting 3 percent or more of sales to research are officers, compared to 70 percent at companies spending less than 1 percent on R&D.

Overall, fewer than one in three chief technical officers reports to the CEO, compared to four out of five chief financial officers studied by Heidrick and Struggles in 1981.

Size of company does not impact the R&D head's reporting relationship. However, a greater proportion of research chiefs report to the top in those organizations with more substantial R&D budgets relative to sales.

	All CTOs	*CTOs by Company Sales*		*CTOs by R&D Budget as % of Sales*			
		$1 bil and more	Under $1 bil	Less than 1%	1–1.9%	2–2.9%	3% or more
Executive Vice President	5.1%	5.8%	4.3%	—	4.7%	5.7%	10.2%
Senior Vice President	14.2	15.6	12.8	5.9%	18.6	14.3	18.6
Group Vice President	1.0	.9	1.1	2.0	—	2.9	—
Vice President	56.3	60.2	52.1	62.7	55.8	57.1	49.2
President—Research Division	3.6	4.9	2.1	3.9	2.3	2.9	5.1
Director—R&D	16.8	11.7	22.3	21.6	18.6	14.2	11.8
Other	3.0	.9	5.3	3.9	—	2.9	5.1
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Age and Sex

The average R&D chieftain is 52 years old, with only a third of the survey participants being under 50. As is the case in other functions, the R&D head is older in companies of larger size. In 1978, the typical chief technical officer was 54.

Because of the higher educational level among heads of the function, R&D leaders are senior in age to their counterparts elsewhere in management. The typical finance head, for example, is 49.

The R&D heads are 99 percent male, also true of other leading corporate functions. An annual study of the senior echelon of American business conducted by Heidrick and Struggles since 1974 has shown a consistent 1 percent female representation.

	All CTOs	*CTOs by Company Sales*	
		$1 bil and more	Under $1 bil
Under 40	2.5%	.2%	3.2%
40–49	31.5	19.1	45.3
50–59	52.3	65.7	38.9
60 and over	13.7	15.0	12.6
	100.0%	100.0%	100.0%
Mean	52.1	53.8	50.1

Highest Educational Attainment

The chief technical officers are the most highly educated group in American management. Level of education advances with size of organization. All survey respondents are degreed; the majority (56.9 percent) possess doctoral degrees. In the 1978 R&D study, just two out of five respondents possessed a doctorate.

The most frequently reported (47.9 percent) major of R&D heads is engineering, followed by a physical science or a biological science. Only 2 percent indicate other majors.

	All CTOs	*CTOs by Company Sales*	
		$1 bil and more	Under $1 bil
Bachelor's	19.3%	13.7%	25.2%
Master's or professional degree	23.8	14.7	33.7
Doctorate	56.9	71.6	41.1
	100.0%	100.0%	100.0%
Major			
Engineering	47.9	38.3	58.2
Physical sciences	39.5%	45.5%	33.0%
Biological sciences	10.5	15.1	5.5
Other	2.1	1.1	3.3
	100.0%	100.0%	100.0%

Cash Compensation

The typical chief technical officer earned under $150,000 in cash compensation during 1981. More than one in ten was paid $200,000 or more. Not unexpectedly, compensation was greater where R&D budgets and company sales were more substantial.

More than nine out of ten responding R&D heads received a bonus in 1981. Most frequently, that incentive payment was based on a combination of corporate results and the R&D chief's own performance. The second most frequently reported basis was a tripartite consideration: corporate results, function results, and the R&D head's performance.

	All CTOs	*CTOs by Company Sales*		*CTOs by R&D Budget as % of Sales*			
		$1 bil and more	Under $1 bil	Less than 1%	1–1.9%	2–2.9%	3% or more
Under $100,000	36.6%	18.1%	55.8%	48.0%	42.8%	28.6%	27.6%
$100,000–$149,999	36.6	38.4	34.7	40.0	38.1	31.4	36.2
$150,000–$199,999	14.9	23.3	6.3	10.0	14.3	22.9	13.8
$200,000 or more	11.9	20.2	3.2	2.0	4.8	17.1	22.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Perquisites

As was true in 1978 when the R&D function was last studied by Heidrick and Struggles, the most frequently reported perquisite enjoyed by R&D heads is stock options. Second is extra life insurance. These are the only two perks reported by a majority of participants.

	All CTOs	*CTOs by Company Sales*	
		$1 bil and more	Under $1 bil
Stock options	83.7%	88.2%	78.7%
Extra life insurance	70.9	67.3	73.4
Automobile	44.4	44.1	44.7
Stock purchase plan	40.8	39.2	31.9
Financial counseling	39.3	60.0	26.6
Club membership	34.7	42.2	26.6
Profit sharing	32.1	27.5	37.2
Performance shares	25.5	31.4	19.1
Employment contract	9.2	13.7	4.3
Tax-shelter opportunity	5.1	7.8	2.1
Low-cost loans	4.6	5.9	3.2
None of the above	2.0	—	4.3

Results do not add to 100% due to multiple responses

U.S. Technological Lead Lost to Foreign Competition?

More than one out of four chief technical officers believe that America has lost its technological lead to foreign competition. However, another 21 percent are not sure, and exactly half respond with a definite negative.

Those R&D heads who are with large organizations, those with substantial budgets, and those reporting to the CEO are most optimistic.

Those believing our lead is lost most often blame the short-term outlook of business, rather than government regulation, a shortage of investment capital, or any other cause.

The short-term outlook ranks first among possible causes with respondents at companies of every size and regardless of R&D budget, with one exception. Among those spending the most on R&D, the government is perceived as the prime culprit.

There are no comparable data as this question was not asked previously.

	All CTOs	*CTOs by Company Sales*		*CTOs by R&D Budget as % of Sales*			
		$1 bil and more	Under $1 bil	Less than 1%	1–1.9%	2–2.9%	3% or more
Yes	28.9%	25.0%	33.0%	38.8%	31.9%	28.6%	22.4%
No	50.0	53.0	46.8	38.8	38.6	60.0	56.9
Not sure	21.1	22.0	20.2	22.4	29.5	11.4	20.7
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Negative Influences on R&D Program

High interest rates were regarded by respondents (replying in September) as the most important negative influence on their corporate R&D program. Runners-up (in order) were government regulation, foreign competition, lack of top management support, and consumerism.

Electrical firms evidenced greatest concern over high interest rates, while food companies considered consumerism most important. Predictably, concern over lack of top management support decreased as the R&D budget increased.

	All CTOs	*CTOs by Company Sales*		*CTOs by Selected Industry Groups*		
		$1 bil and more	Under $1 bil	Chemical	Food	Electrical
High interest rates	49.7%	55.4%	43.5%	44.4%	42.9%	63.2%
Government regulation	45.2	45.7	44.7	66.7	71.4	42.1
Foreign competition	44.1	35.7	54.1	55.6	21.4	57.9
Lack of top management support	26.6	31.5	21.2	22.2	21.4	21.1
Consumerism	21.5	17.4	25.9	25.0	57.1	5.3

Results do not add to 100% due to multiple responses

Emerging Sciences

Computer technology is most often ranked as the emerging science essential to corporate profitability over the next five years. Others, by frequency of mention, are bioscience/technology, processing, physics/chemistry, materials, energy, and communications.

	All CTOs	*CTOs by Company Sales*	
		$1 bil and more	Under $1 bil
Computer technology	39.3%	43.1%	34.8%
Bioscience/technology	34.6	52.9	13.5
Processing	30.4	29.4	31.5
Physics/Chemistry	25.7	13.7	33.7
Materials	23.6	21.6	25.8
Energy	12.6	14.7	10.1
Communications	11.5	13.7	9.0

Results do not add to 100% due to multiple responses

Research and Development Issues

Viewpoint of Chief Technical Officers	Agree	Disagree	Undecided
Today the American public holds science and technology in lower regard than ever before	15.7%	71.1%	13.2%
Insufficient R&D spending is a major cause of low U.S. productivity	49.2	41.1	9.6
The current economic climate cannot support higher levels of R&D spending	35.2	58.2	6.6
Too large a percentage of R&D budgets is aimed at short-term results	77.2	16.2	6.6

Publications

The firm's original research on trends in management which has been conducted since 1962 is shared with the business community at large.

The Changing Board (1982) $10
A survey of chairmen concerning boards of directors

Director Data (1982) $10
A report on outside directors and their board companies

Mobile Manager (1982) $5

Research and Development (1982) $10

A list of recent Heidrick and Struggles publications appears here. Copies are available upon request to our Chicago office.

Profile of a Chief Financial Officer (1981)

Profile of a Chief International Officer (1981)

Profile of a Bank and Bank Holding Company Chief Executive Officer (1980)

Profile of a Chief Executive Officer (1980)

Profile of a Woman Officer (1980)

Profile of a Black Executive (1979)

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1983 Profile of the Board of Directors

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Highlights

Key findings of this study of the ***Fortune*** *1350 companies*

- Board membership averages 7.4 independent outside directors, 3.5 management directors, and 1.6 affiliated non-management directors.
- Directors receive at least $18,000 at one-third of the companies, exclusive of committee service, compared to one in 13 four years ago.
- Chairmen believe their outside directors are adequately compensated for their time, expertise, and liability risk.
- Forty-two percent of *Fortune* companies have one or more female or minority directors. The proportion rises to 68 percent at the premier-size industrials.
- Three out of five boards are involved in selection of officers below the CEO's level.
- About one company in four has developed an objective, quantitative means of evaluating the CEO's performance.
- Protecting shareholders' interests is the most important responsibility of directors of a publicly held company, according to chairmen.
- Two out of three companies have a retirement policy for outside directors, typically based on age 70.
- A majority of boards are involved in performance appraisal of officers below the CEO's level.
- Quality of present board is the most influential factor in attracting new outside directors.

Review and Forecast

by Eugene Jennings, Ph.D.

Heidrick and Struggles commissioned Dr. Eugene Jennings to prepare this introduction to our study. Dr. Jennings, a professor of management in the graduate school of business administration at Michigan State University, is an author, lecturer, and confidential advisor to chairmen and presidents of leading corporations.

Who Talks with the Chairman?

Few would dispute the chairman's need for quality advice to assure wise leadership. Almost three-quarters of the chairmen in this study mention that an important function of outside board members is to counsel top management, but about what do directors counsel? The study, once again, shows that most chairmen do not want the full board's counsel about strategic planning or the promotion, compensation, and termination of key executives. Barely half would want to include the board in meetings with top management about long-range plans.

It might appear from this report that the chairman wants counsel but not about such vital matters as the viability of the firm. How then does the board fulfill its chief function of safeguarding shareholders' interests? There is no law that spells out how the board should perform its fiduciary responsibility and how the chairman should gain wisdom from it. The result is that various forms of board governance are employed.

The first is the "formal" board that was extremely popular until recently. Occasionally the chairman singles out individuals for special counsel, but this is the exception rather than the rule. The full board has the first and last word.

Because boards are typically large and cumbersome, chairmen began to consult with select members privately to get quicker advice. As the board became more assertive in the last decade, many chairmen never allowed critical issues to come before the board unless all the wrinkles had been ironed out in private. For these chairmen, the exception of conferring with individual members became the rule.

Whenever the "informal" board replaces the "formal" board, the full board often merely ratifies what has been agreed upon in private. But the informal procedure of board governance sometimes creates very powerful individuals whose concert with colleagues can become obstreperous; and, as committees become more numerous and important, the third procedure of board governance emerges.

With a "committee-oriented" board, the committee can expect the full board to approve its deliberations. Of course, some boards have committees that are expected to simply be fact-finders, and any proposals coming to the board can be expected to be either modified, rejected, or approved. But when the board is dominated by committees, the chairman works individually and collectively with committee members to assure that their powers are not diluted in the full board meeting. The committees, such as audit, finance, and nominating, have special purposes that do not allow even half of board matters to be assigned to them. Hence, chairmen today are utilizing a fourth board procedure, the "combination" board, in which the chairman may utilize each of the other three approaches to governance.

This eclectic approach is on the rise, not because of the Machiavellian motive of assuring power, but because each procedure can contribute to the chairman's leadership. Eighty percent of the chairmen in this study speak one-on-one with board members about such matters as future markets and emerging technologies. At the same time committees are deliberating with full expectation that the whole board will ratify their actions. In this way the eclectic approach insures that the rigid rules and procedures that clog other governing bodies today will be kept to a minimum. Perhaps this is the overriding reason for the popularity of the "combination" procedure.

Corporate America needs to be responsive to a turbulent environment. Further, wisdom is not the sole province of a board, a committee, or a single individual. Still, the eclectic or "combination" board requires a chairman who is exceptionally skilled in dealing with people in the multiple modes of formal and informal groups, and individuals. The eclectic procedure, when done poorly, forces the chairman to take refuge in one of the other three approaches. However, when it is done well, this approach not only brings wisdom to the corporation but graceful leadership as well.

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Price: $10

About This Study

Heidrick and Struggles conducted this eighth survey of boards of directors in late fall of 1982. The findings represent the 1,000 largest industrial organizations and the 350 leading non-industrial firms among commercial banking, diversified financial services, insurance, retailing, transportation, utilities, and diversified service companies. A response rate of 38 percent was reached with one mailing of our questionnaire.

Results are reported by type of business. In addition, industrial companies are divided into three groups by sales volume. Findings are compared with earlier director studies, when appropriate.

Heidrick and Struggles is deeply grateful to the board chairmen who took the time and attention from their many responsibilities to make these findings available to the business community.

Chairman as Chief Executive Officer

The chairman of the board is also chief executive officer in more than four out of five companies. One out of eight chairmen is not CEO but is active in management; one in 20 is not active.

Chairmen are more likely to hold the chief executive post in organizations whose boards have a majority of independent directors.

Chairman's Role in Management	*All Companies*	*All Industrials*	*All Non-Industrials*	*Board Majority Independent*	*Not Independent*
CEO	82.2%	80.1%	88.2%	83.5%	79.1%
Not CEO, active in company management	12.6	14.0	8.7	11.2	17.3
Not active in company management	5.2	5.9	3.1	5.3	3.6
	100.0%	100.0%	100.0%	100.0%	100.0%

Size of Board

Board size remains relatively unchanged over the eight years of this annual study. Currently the typical board has 12.5 members. Industrial board size averages 11.5 and increases with company sales; non-industrial boards surpass in size even the largest industrials, typically numbering 15.4. Boards tend to be more sizable when the majority of directors are independent (13.1) than when they are not (11.5).

Number of Directors	*All Companies*	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm–1.9 bil	Under $500 mm	
5–9	24.9%	29.5%	5.6%	17.2%	50.3%	11.9%
10–14	50.2	55.2	43.8	75.2	48.5	36.2
15–19	17.3	13.1	41.6	7.6	1.2	29.1
20 or more	7.6	2.2	9.0	—	—	22.8
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Mean	12.5	11.5	15.0	11.7	9.6	15.4

Number of Board Meetings in 1983

The typical *Fortune* company board plans to meet 7.5 times in 1983. Boards of non-industrial companies and of the largest industrials have scheduled more frequent meetings, 8.5 and 9.1 times, respectively.

This question was asked last in 1980; at that time the mean stood at 7.8, and in 1976 at 7.7. This constancy, in the face of increasing board involvement in corporate affairs, no doubt reflects the greater involvement of committees in the work of boards.

Number of Meetings	*All Companies*	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
1-4	17.5%	18.3%	2.2%	14.7%	29.3%	15.1%
5-9	50.1	54.4	42.7	56.9	59.1	38.1
10-14	32.2	27.3	55.1	28.4	11.6	46.0
15-19	0.2	—	—	—	—	0.8
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Mean	7.5	7.1	9.1	7.4	6.0	8.5

Composition of Board

Independent outside directors currently constitute 59 percent of all directors, compared with 58 percent a year ago and 54 percent in 1980. As our earlier studies have shown, non-industrial companies have a much larger proportion of independents (68 percent) than industrials (55 percent).

Independent directors are defined as outsiders without business or family ties to the board company. Management directors are employees of the corporation, and affiliated non-management directors are non-employees with business or family ties to the company.

Type of Director	*All Companies*	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
Independent	59.2%	55.0%	60.2%	54.1%	51.4%	68.1%
Management	27.7	30.6	27.2	31.3	32.9	21.5
Affiliated non-management	13.1	14.4	12.6	14.6	15.7	10.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Board Composition By Race and Sex

Nearly 95 percent of all directors are white males. White females make up 3.5 percent, with the remainder being non-Caucasians of both sexes.

While most boards remain exclusively white male, the decline continues of boards lacking minority representation. Now, 42 percent of all companies have minority members as directors; however, the incidence of diverse boards is twice as great among non-industrials as industrials. Nearly seven out of ten premier-size industrials have other than white male directors.

Black males and white females are most often found on the boards of non-industrials and the $2-billion-and-more industrials. Black females most frequently serve as directors for the largest industrial companies.

Board Composition by Race and Sex	*All Companies*		*All Industrials*	*Industrials by Size*			*All Non-Industrials*
	1982	1981		$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
Exclusively white male	57.6%	59.3%	66.7%	31.5%	71.2%	82.9%	32.3%
Minority members	42.4	40.7	33.3	68.5	28.8	17.1	67.7
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Percentage of All Companies with These Directors	*All Companies*	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
White males	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
White females	37.2	28.8	59.5	25.0	14.6	60.6
Black males	13.8	9.3	24.7	7.7	1.8	26.8
Black females	5.4	5.3	19.1	—	—	5.5
Other males	2.9	1.1	3.4	2.4	—	7.9
Other females	0.4	0.3	1.1	—	—	0.8

Results do not add to 100% due to multiple responses.

Director Population by Race and Sex	*All Companies*	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
White males	94.6%	95.5%	92.0%	96.7%	97.5%	92.6%
White females	3.5	2.9	4.7	2.5	1.6	4.7
Black males	1.3	1.0	1.7	0.6	0.7	1.7
Black females	0.4	0.5	1.3	—	0.1	0.4
Others	0.2	0.1	0.3	0.2	—	0.6
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Boards by Nationality of Directors

More than two out of five premier-size industrial companies have one or more foreign nationals as directors. Overall, nearly one in five companies reports a board member from outside the United States.

	All Companies		*All Industrials*	*Industrials by Size*			*All Non-Industrials*
	1982	1981		$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
American citizens only	81.4%	81.0%	80.5%	58.9%	83.7%	90.3%	83.7%
Foreign nationals as directors	18.6	19.0	19.5	41.1	16.3	9.7	16.3
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Board Committees

Incidence of board committees continues to rise, with the single exception of the executive committee.

The nominating committee is now found at nearly four out of five companies, compared to about one in ten in 1976. The number of pension/retirement and stock options committees has not multiplied dramatically, perhaps because many companies include these areas among the responsibilities of the compensation committee.

Independent outside directors serve as chairmen of all but the executive committee in the majority of organizations.

	Proportion of All Companies With These Committees				*Independent Directors as Proportion of All Chairmen*	
	1982	1981	1976	1971	1982	1981
Audit	99.6%	99.0%	93.0%	42.3%	99.1%	90.4%
Compensation	97.8	97.0	85.0	74.1	93.9	81.5
Executive	87.4	92.3	79.9	81.2	22.7	12.8
Nominating	79.1	75.6	9.2	—	84.2	67.8
Finance	65.2	53.7	33.5	28.1	63.0	47.4
Pension/retirement	54.5	49.3	25.3	28.8	69.0	57.2
Stock options	50.4	45.4	43.5	56.4	85.0	70.5
Public/corp. responsibility	36.0	31.8	5.5	—	83.1	60.7

Results do not add to 100% due to multiple responses

Audit, Compensation, and Nominating Committees

The majority of companies limit three committees by rule: audit, compensation, and nominating. Most organizations confine both the audit and compensation committees to outside directors, both independent and affiliated non-management.

More than one third of the companies limit their nominating committees to outside directors; 80 percent have at least a majority of outsiders.

Audit	*All Companies*	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm–1.9 bil	Under $500 mm	
Outside directors—independent only	45.5%	45.0%	42.9%	41.8%	48.2%	46.8%
Outside directors—both independent and affiliated non-management	39.5	41.2	46.4	43.0	35.1	35.5
Majority of outside directors—both independent and affiliated non-management	1.6	1.9	1.2	3.3	1.4	0.8
Majority of outside directors—independent only	1.4	1.3	1.2	—	2.1	1.6
No limitation	10.9	9.4	8.3	10.9	9.1	14.5
No such committee	1.1	1.2	—	1.0	2.1	0.8
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Compensation						
Outside directors—both independent and affiliated non-management	34.7%	35.9%	40.8%	37.2%	32.1%	31.6%
Outside directors—independent only	33.5	31.6	33.3	27.9	32.9	38.5
Majority of outside directors—both independent and affiliated non-management	6.2	7.2	3.7	10.5	7.3	3.4
Majority of outside directors—independent only	5.9	5.6	2.5	4.7	8.0	6.8
No limitation	17.1	17.4	18.5	19.7	15.3	16.3
No such committee	2.6	2.3	1.2	—	4.4	3.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Nominating						
Outside directors—both independent and affiliated non-management	21.2%	20.2%	26.9%	24.1%	12.1%	23.7%
Outside directors—independent only	14.5	14.1	19.2	8.6	13.2	15.5
Majority of outside directors—both independent and affiliated non-management	13.0	11.5	14.1	10.4	9.9	16.5
Majority of outside directors—independent only	9.0	7.9	9.0	8.6	6.6	11.3
No limitation	20.7	22.5	20.5	27.6	20.8	16.5
No such committee	21.6	23.8	10.3	20.7	37.4	16.5
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Basis of Outside Director Compensation

Four out of five chairmen report that outside directors are compensated by an annual retainer and regular and committee meeting fees. The proportion of organizations (83 percent) which currently utilize this historically most popular method represents a sharp increase from the 53.1 percent recorded in our firm's 1976 survey.

The retainer plus regular and committee fees is even more prevalent among non-industrials than among industrials.

	All Companies		*All Industrials*	*All Non-Industrials*	*Chairman/ CEO*	*Chairman/ Not CEO*	*Board Majority*	
	1982	1976					Independent	Not Independent
Annual retainer and regular and committee meeting fees	83.0%	53.1%	81.0%	88.4%	84.3%	76.5%	85.2%	75.0%
Annual retainer and committee meeting fee	7.4	8.5	8.1	5.4	7.3	8.2	7.6	8.6
Annual retainer and regular meeting fee	2.3	14.8	3.1	—	2.0	3.5	2.0	3.6
Annual retainer only	6.0	12.4	6.4	4.6	5.1	9.4	3.6	11.4
Other	1.3	11.2	1.4	1.6	1.3	2.4	1.6	1.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Annual Compensation of Outside Directors Attending All Full Board Meetings

One out of three companies pays directors who attend all full board meetings at least $18,000. In 1980, only one in five did so; in 1978 just one in thirteen of the responding companies paid board members this much.

Thirty-two percent of the premier-size industrials now pay $24,000 or more, compared to 24 percent in 1981. The majority of companies whose chairmen feel their board members are adequately compensated pay at least $18,000 to outside directors.

Payment for committee meeting service is not included in these data, so increased compensation for full board meetings is not fully representative of the rise in director pay.

	All Companies			*All Industrials*	*Industrials by Size*			*All Non-Industrials*
	1982	1980	1978		$2 bil or more	$500 mm–1.9 bil	Under $500 mm	
Up to $9,000	15.4%	22.5%	41.1%	18.0%	2.2%	6.8%	33.7%	8.6%
$9,000–$11,999	15.1	25.4	20.5	15.6	1.1	9.8	27.6	13.3
$12,000–$14,999	21.5	20.2	17.8	19.7	5.6	26.2	23.3	26.6
$15,000–$17,999	14.7	11.8	12.9	14.9	12.2	25.2	9.9	14.1
$18,000–$20,999	12.2	13.7		10.4	16.7	17.5	2.5	17.2
$21,000–$23,999	11.0	4.2	7.7	11.0	30.0	9.7	1.2	10.8
$24,000 and more	10.1	2.3		10.4	32.2	4.8	1.8	9.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Adequacy of Board Compensation

More than four out of five chairmen feel their outside directors are adequately compensated for time, expertise, and liability risk. Chairmen of the largest industrials, which pay the most, are even more likely to believe in the suitability of director pay.

Newly elected directors agree with the chairmen: in our recent study of newly elected outside directors, nearly four out of five felt sufficiently well rewarded for their board service.

	All Companies	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm–1.9 bil	Under $500 mm	
Yes	85.0%	86.0%	90.9%	84.2%	84.6%	82.0%
No	15.0	14.0	9.1	15.8	15.4	18.0
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Retirement Policy for Outside Directors

Two out of three participating organizations have a retirement policy for outside directors, up from six in ten a year ago. Eighty-five percent of those use age as the sole criterion; 70 is the overwhelming choice, although for one out of five, retirement is not mandatory until age 72.

	All Companies		*All Industrials*	*Industrials by Size*			*All Non-Industrials*
	1982	1981		$2 bil or more	$500 mm–1.9 bil	Under $500 mm	
Have retirement policy	66.7%	61.9%	61.3%	84.4%	68.0%	44.5%	81.4%
No retirement policy	30.0	35.8	35.0	14.4	29.1	50.0	16.3
No retirement policy yet	3.3	2.3	3.7	1.2	2.9	5.5	2.3
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0

Management/Board Matters Delineated in Writing

More than one company in four has developed a written statement defining the content of board responsibilities versus the content of management responsibilities. This incidence is highest (33.7 percent) at the largest industrials, followed by companies whose boards have a majority of independent directors.

	All Companies		*All Industrials*	*All Non-Industrials*	*Board Majority*	
	1982	1981			Independent	Non-Independent
Yes	27.1%	23.1%	27.3%	26.4%	31.8%	18.6%
No	66.3	70.0	67.3	63.5	61.9	72.8
Not yet	6.6	6.9	5.4	10.1	6.3	8.6
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Objective, Quantitative Means of Evaluating the CEO

More than one out of four responding organizations has developed an objective, quantitative means of evaluating the chief executive officer. As in 1981, the method most frequently employed measures the CEO's performance against specific annual/long-range objectives of the company. Not surprisingly, formal evaluation of the CEO is more prevalent when the majority of directors are independent outsiders.

	All Companies		*All Industrials*	*All Non-Industrials*	*Board Majority*	
	1982	1981			Independent	Non-Independent
Yes	27.1%	24.3%	27.4%	26.4%	30.2%	18.6%
No	64.2	60.5	64.4	63.6	60.1	72.9
Not yet	8.7	15.2	8.2	10.0	9.7	8.5
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Performance Appraisal of Officers

More than half the boards of responding companies are involved in performance appraisal of officers below the CEO. This incidence rises to 73 percent for the $2-billion-and-more giants.

A committee of the board is most likely to have the responsibility. Nearly one out of four companies involves both a committee and the full board; in just one company in ten, only the full board measures officer performance.

	All Companies	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm–1.9 bil	Under $500 mm	
Yes	55.8%	56.6%	73.3%	55.4%	48.2%	53.5%
No	42.6	42.0	25.6	41.6	51.2	44.2
Not yet	1.6	1.4	1.1	3.0	—	2.3
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Board Involvement in Selection of Officers Below the CEO

The boards of three out of five companies are involved in selection of officers below the CEO level; in the premier-size industrials nearly three out of four participate. When the board is party to the process, responsibility for officer selection lies with a committee and the full board or the full board acting alone.

	All Companies	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm–1.9 bil	Under $500 mm	
Yes	60.7%	58.4%	74.2%	61.6%	47.9%	67.2%
No	38.4	40.7	25.8	37.3	50.9	32.0
Not yet	0.9	0.9	—	1.1	1.2	0.8
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Most Influential Factors in Attracting Outside Directors

Chairmen feel that "quality of present board" is the biggest factor in attracting outside directors. "Quality of company management" is deemed #2, with "company's business(es)," "company's ranking in its industry," and "company's size" following in that order.

	All Companies	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
Quality of present board	76.7%	76.3%	80.7%	70.7%	77.3%	77.7%
Quality of company management	65.2	66.2	73.5	56.5	68.0	62.8
Company's business(es)	49.1	51.1	43.4	48.9	56.7	43.8
Company's ranking in its industry	42.4	36.9	33.7	36.6	32.0	57.0
Company's size	33.4	33.2	39.8	35.9	28.0	33.9
Amount of compensation	7.6	8.3	6.0	9.8	8.7	5.8
Number of board meetings	5.6	6.8	8.4	6.5	6.0	2.5
Location of board meetings	5.4	6.2	3.6	8.7	6.0	3.3

Results do not add to 100% due to multiple responses

Most Important Responsibilities of an Outside Director

Protecting shareholders' interests ranks foremost among the responsibilities of an outside director of a publicly held company, according to chairmen.

Counseling of top management is second in importance. Monitoring performance of top management rates third, followed by assessing the CEO's performance/enacting appropriate reward. "Acting as the ultimate corporate conscience" is a distant fifth among choices chairmen were given for consideration.

The average score accorded the various duties was derived by weighting all first, second, and third-place rankings by respondents.

	All Companies	*All Industrials*	*Industrials by Size*			*All Non-Industrials*
			$2 bil or more	$500 mm-1.9 bil	Under $500 mm	
Protect shareholders' interests	3.51	3.49	3.56	3.65	3.38	3.55
Counsel top management	2.03	2.10	1.45	1.94	2.55	1.84
Monitor performance of top management	1.97	1.87	2.00	1.68	1.74	2.25
Assess CEO performance/ enact appropriate reward	.99	1.04	.96	1.24	.95	.85
Act as the ultimate corporate conscience	.41	.41	.61	.65	.27	.42

Acceptability of Board Prospects

Do you have an interest in the following individuals as outside directors?

	Yes	No
Academics	56.2%	43.8%
Former government officials	33.0	67.0
Retirees	28.8	71.2
Consultants	25.5	74.5
Professional directors (those whose primary activity is serving as an outside director)	21.8	78.2

Practices of Chairmen

As Chairman, do you:	Yes	No
invite non-director senior executives to present special reports to the full board?	95.9%	4.1%
meet on a one-to-one basis with directors especially knowledgeable concerning specific markets and emerging technologies?	87.1	12.9
invite outside directors to top management meetings in which long-range plans are discussed?	55.7	44.3

Views of Chairmen

	Agree	Disagree	Undecided
Strategic planning should be a function of the full board	39.7%	51.4%	8.9%
Full board should participate in selection, promotion, compensation and termination of corporate officers and other key executives	35.5	59.5	5.0
An individual can serve effectively as both an outside director and consultant simultaneously to the same organization	30.6	56.1	13.3
Director tenure should be shortened to better meet the changing needs of corporations	12.7	75.2	12.1

About Heidrick and Struggles

As one of the most broadly experienced and highly regarded firms dedicated exclusively to executive and director search, Heidrick and Struggles provides access to leading executive markets in North America and Europe through 18 offices.

Senior partners of the firm are called upon for counsel and professional assistance in the critical task of identification and selection of corporate directors. The search for outside directors capable of stimulating management thinking and aiding the chief executive in decision-making is multi-faceted. Board composition must be analyzed; research conducted to pinpoint appropriate individuals; and prime prospects interviewed face-to-face to determine their suitability. While the final decision rests with the client organization, use of a search consultant preserves anonymity until disclosure of company identity appears desirable.

Heidrick and Struggles is pleased to add this issue of *The Changing Board* to those previously published by the firm to make available trends of significance to directors and senior corporate management.

Publications

The firm's original research on trends in management which has been conducted since 1962 is shared with the business community at large.

The Changing Board (1983) $10
A survey of chairmen concerning boards of directors

Director Data (1982) $10
A report on outside directors and their board companies

Mobile Manager (1982) $5

Research and Development (1982) $10

A list of recent Heidrick and Struggles publications appears here. Copies are available upon request to our Chicago office.

Profile of a Chief Financial Officer (1981)

Profile of a Chief International Officer (1981)

Profile of a Bank and Bank Holding Company Chief Executive Officer (1980)

Profile of a Chief Executive Officer (1980)

Profile of a Woman Officer (1980)

Profile of a Black Executive (1979)

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